

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

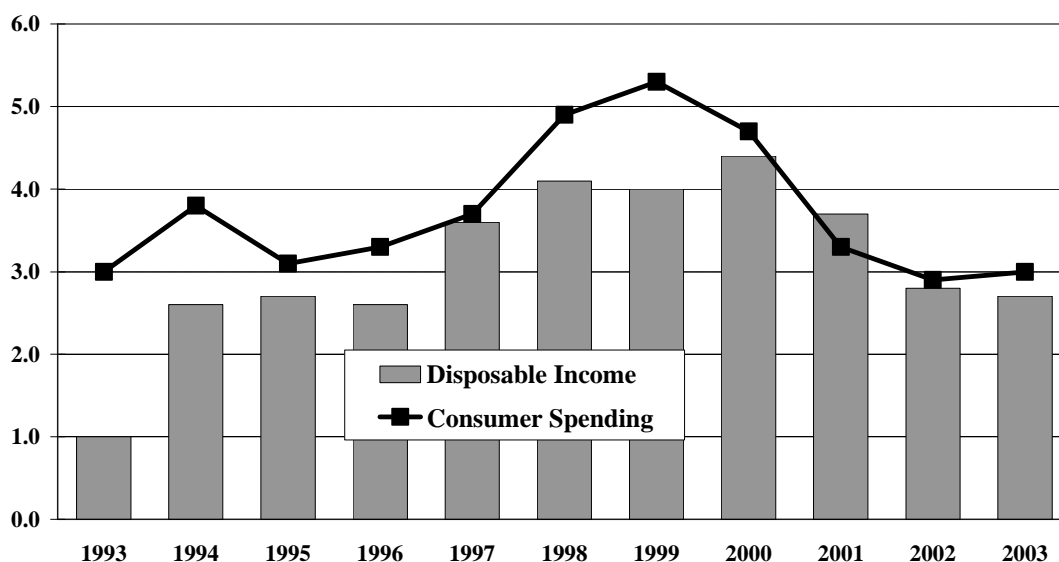
Division of Financial Management

Vol. XXII, No. 2
April 2000

ISSN 8756-1840

- Forecast 1999-2003
- The Downstream Price Effects of Rising Oil Prices
- Alternative Forecasts

Real Spending & Real Income Growth



Source: Standard and Poor's DRI

**Idaho
Economic
Forecast
1999 - 2003**

State of Idaho
DIRK KEMPTHORNE
Governor

*Costs associated with this publication are available
from the Division of Financial Management
in accordance with Section 60-202, Idaho Code.*

4-00/385/010200-180-4001

PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop-and-start economic performance, the 1990s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes painful restructuring) of its key basic industries.

The State's traditional industries - such as lumber and wood products, food processing, and mining - have become more competitive. The high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise this decade, and is expected to sustain solid growth well through the first decade of the new millennium.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the broad base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, more Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have grown recently. Almost two-thirds of Idaho cities lost population during the previous decade. Many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm – most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the next century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

Division of Financial Management
700 W. Jefferson, Room 122
P.O. Box 83720
Boise, Idaho 83720-0032
(208) 334-3900

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

This page left blank intentionally.

TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary	5
Idaho and U.S. Forecast Summary Tables	6
Forecast Description:	
National.....	8
Idaho	14
Forecasts Comparison	20
Alternative Forecasts.....	22
Feature Article	
The Downstream Price Effects of Rising Oil Prices.....	25
Forecast Detail	29
Annual Forecast	30
Quarterly Forecast.....	44
Appendix.....	59
DRI U.S. Macroeconomic Model	60
Idaho Economic Model.....	62
Equations	64
Endogenous Variables	68
Exogenous Variables	70

INTRODUCTION

The national forecast presented in this publication is the March 2000 Standard and Poor's DRI baseline forecast of the U.S. economy. The January 2000 *Idaho Economic Forecast* is based on the November 1999 DRI national forecast.

The cover chart compares U.S. real consumer spending growth to disposable income growth. It illustrates one of the features of the current expansion. Namely, Americans have been spending money faster than they have been making it since 1993. This forecast assumed the gap between real spending and income growth will narrow over the forecast period.

FEATURE

The meteoric rise in oil prices has received a great deal of media coverage. The key issue is whether the spike in crude oil prices will jump-start general inflation. This issue is the subject of this report's feature article entitled "The Downstream Price Effects of Rising Oil Prices." It was written by Jeff Gaynor who is an economist with Standard & Poor's DRI's Cost Information Service. Readers requiring more information are encouraged to contact Mark Ulmer at (202) 383-3641.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1984 to 2003 and for every quarter from 1997 through 2002. The solution of the Idaho Economic Model for this forecast begins with the fourth quarter of 1999.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

The employment numbers that appear in this publication are based on monthly data supplied by the Idaho Department of Labor. These data extend through the fourth quarter of 1999. The estimates for the first nine months of 1999 have been benchmarked and the monthly estimates for the fourth quarter of 1999 are preliminary. All the monthly data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM).

In January 2000, it was estimated that nonfarm employment would grow at a 0.1% annual pace in the third quarter of 1999 and 2.3% in the fourth quarter of that year. The most recent release of Idaho Department of Labor data suggest that job growth has been more robust. It is now believed that Idaho

nonfarm employment expanded at a 3.6% pace in last year's third quarter and by 4.4% during the fourth quarter. This has effectively raised the starting level for the forecast of nonfarm employment.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis' (BEA) estimates of Idaho quarterly personal income through the third quarter of 1999. The BEA is scheduled to release its next round of Idaho personal income estimates in late April 2000. These estimates will run through the fourth quarter of 1999.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www.state.id.us/dfm/econinfo.htm>.

Hardcopy subscription rates for the *Idaho Economic Forecast*, which is published four times a year, are as follows:

Idaho State Government	No Charge
Idaho Resident	\$10.00 per year
Non-Idaho Resident	\$20.00 per year

To subscribe, send the following information and appropriate payment to:

**Idaho Economic Forecast
Division of Financial Management
700 W. Jefferson, Room 122
P.O. Box 83720
Boise, Idaho 83720-0032**

NAME _____

ORGANIZATION _____

MAILING ADDRESS _____

CITY _____

STATE _____

ZIP CODE _____

Subscriber Category Idaho State Government _____

Idaho Resident _____

Non-Idaho Resident _____

Enclosed is payment of \$ _____ for _____ years.